

<p>Page 1</p> <p>1 UNITED STATES BANKRUPTCY COURT 2 EASTERN DISTRICT OF MICHIGAN 3 SOUTHERN DIVISION 4 -----X 5 IN RE) Chapter 9 6 CITY OF DETROIT, MICHIGAN,) Case No. 13-53846 7 Debtor.) Hon. Steven W. Rhodes 8 -----X 9 10 11 12 DEPOSITION of GLENN DAVID BOWEN 13 Washington, D.C. 14 Tuesday, September 24, 2013 15 16 17 18 Pages: 1 - 213 19 Reported by: Cindy L. Sebo, RMR, CRR, RPR, CSR, 20 CCR, CLR, RSA 21 Assignment Number: 472421 22 File Number: 105824</p>	<p>Page 3</p> <p>1 APPEARANCES: 2 JONES DAY 3 For the Debtor: 4 51 Louisiana Avenue, Northwest 5 Washington, D.C. 20001-2113 6 202.879.3939 7 BY: EVAN MILLER, ESQUIRE 8 emiller@jonesday.com 9 BY: MIGUEL F. EATON, ESQUIRE 10 meaton@jonesday.com 11 12 DENTONS US LLP 13 For the Official Committee of Retirees: 14 233 South Wacker Drive 15 Suite 7800 16 Chicago, Illinois 60606-6306 17 312.876.7994 18 BY: ROBERT B. MILLNER, ESQUIRE 19 robert.millner@dentons.com 20 BY: ARTHUR H. RUEGGER, ESQUIRE 21 arthur.ruegger@dentons.com 22</p>
<p>Page 2</p> <p>1 September 24, 2013 2 9:47 a.m. 3 4 5 Deposition of GLENN DAVID BOWEN held 6 at the law offices of: 7 8 9 Jones Day 10 51 Louisiana Avenue, Northwest 11 Washington, D.C. 20001 12 13 14 15 16 Pursuant to notice, before Cindy L. 17 Sebo, Registered Merit Reporter, Certified Real-Time 18 Reporter, Registered Professional Reporter, 19 Certified Shorthand Reporter, Certified Court 20 Reporter, Certified LiveNote Reporter, Real-Time 21 Systems Administrator and a Notary Public in and for 22 the District of Columbia.</p>	<p>Page 4</p> <p>1 APPEARANCES (Continued): 2 COHEN, WEISS AND SIMON LLP 3 For the United Auto Workers Union: 4 330 West 42nd Street 5 New York, New York 10036-6979 6 212.356.0216 7 BY: THOMAS N. CIANTRA, ESQUIRE 8 tciantra@cwsny.com 9 10 LOWENSTEIN SANDLER LLP 11 For AFSCME: 12 65 Livingston Avenue 13 Roseland, New Jersey 07068 14 973.597.2538 15 BY: JOHN K. SHERWOOD, ESQUIRE 16 jsherwood@lowenstein.com 17 18 19 20 21 22</p>



<p style="text-align: right;">Page 33</p> <p>1 I'll say 60/40 was designed to be a proxy equity 2 and fixed income. The asset allocation is more 3 complicated with additional asset classes. 4 The results were roughly the same. 5 Q. "The results" meaning what? 6 A. Our -- our -- once we received the 7 investment policy in particular and we ran it 8 through our modeling, we developed the best 9 estimate range based upon the particulars of the 10 investment policies, and we developed an expected 11 return and a best estimate range around that 12 return, which I will characterize simply as told 13 the same story as we had in our high-level proxy 14 analysis in this letter (indicating). 15 Q. Well, is it -- is it your -- is it 16 the -- let me ask -- start with you, yourself. 17 Is it your position presently that the 18 7.9 percent investment return expectations for the 19 General Retirement System is above the top end of 20 your reasonable range? 21 A. When we calculated the -- using the 22 specific investment policy provided by the City, we</p>	<p style="text-align: right;">Page 35</p> <p>1 at Milliman, would there be someone else that a 2 representative of the City of Detroit would have 3 asked that opinion for? 4 A. They have not asked me. As far as I 5 know, they have not asked anyone who's been 6 involved in the pension work. I cannot state 7 definitively they haven't asked someone at 8 Milliman, but I would be surprised. 9 Q. You would be the logical person they 10 would ask? 11 A. Yes. 12 Q. The General Retirement System presently 13 uses a seven-year smoothing period for its 14 actuarial valuation of the plan's assets; is that 15 correct? 16 A. Yes. 17 Q. All right. And is that within -- in 18 your opinion, within Actuarial Standards of 19 Practice? 20 A. We've not been asked to opine on that 21 for the City of Detroit, merely pointed out the 22 methodology that was being used.</p>
<p style="text-align: right;">Page 34</p> <p>1 developed the expected return and a best estimate 2 range, and the top of that range was below the 7.9 3 and the 8 percent used in the valuations. 4 Q. Is it -- is it -- is that -- well, I 5 assume that's the opinion of the Milliman firm? 6 A. Based on our capital market 7 assumptions, yes. 8 Q. Is it -- is it the position of the 9 Milliman firm that the 7.9 percent investment 10 return expectation is inconsistent with Actuarial 11 Standards of Practice? 12 A. We have not been asked to make an 13 opinion on that, and I have no opinion on that. 14 Q. You have not been asked to make an 15 opinion? 16 A. We have not. 17 Q. Have you been asked to make an opinion 18 as to whether any of the actuarial assumptions that 19 the Gabriel, Roeder, Smith firm has done are 20 inconsistent with Actuarial Standards of Practice? 21 A. We have not been asked that. 22 Q. Would there be -- other than yourself</p>	<p style="text-align: right;">Page 36</p> <p>1 Q. Okay. Do you have an opinion on that 2 sitting here? 3 A. I can't say that it's not within 4 acceptable standards of practice. 5 Q. How about the earnings assumption, the 6 7.9 percent earnings assumption? 7 A. Again, we -- we have our capital market 8 assumptions model, which develops an expected 9 return and a range of results, which we recommend 10 to our clients. I would not recommend a rate 11 outside of our best estimate range to any of my 12 clients. 13 Q. But -- okay. 14 But if the client wanted to use, say, a 15 7.9 percent rate, would you view that as outside of 16 Actuarial Standards of Practice? 17 MR. MUTH: Object to the form. 18 You can go ahead and answer. 19 THE WITNESS: I don't know what that 20 meant. 21 I would view it as outside of our best 22 estimate range, and clients can mandate</p>

<p style="text-align: right;">Page 37</p> <p>1 assumptions. They don't always listen to us.</p> <p>2 BY MR. CIANTRA:</p> <p>3 Q. Okay. But I guess -- help me out here.</p> <p>4 Does there come a point where, in your</p> <p>5 professional judgment, if the client says I want</p> <p>6 you to use this return assumption, where you, as a</p> <p>7 professional, would not, say, sign a report, an</p> <p>8 actuarial valuation that used a particular</p> <p>9 assumption that you mandated?</p> <p>10 A. That's not the way that I would</p> <p>11 approach it. My understanding of Actuarial</p> <p>12 Standards or Practices that we disclose mandated</p> <p>13 assumptions, and if they're unreasonable or if they</p> <p>14 are un- -- if they are outside of what we would</p> <p>15 consider to be reasonable, we'll state that.</p> <p>16 Q. And similarly, if -- if you don't state</p> <p>17 that in a report, one would assume that -- that --</p> <p>18 would it be reasonable to assume that the firm's</p> <p>19 position is that it is within Actuarial Standards</p> <p>20 of Practice?</p> <p>21 MR. MUTH: Object to the form.</p> <p>22 Go ahead, you can answer. Yeah, I'll</p>	<p style="text-align: right;">Page 39</p> <p>1 (Whereupon, the court reporter read back</p> <p>2 the pertinent part of the record.)</p> <p>3 - - -</p> <p>4 THE WITNESS: I'm not aware of an</p> <p>5 actuarial standard that puts a specific limit on</p> <p>6 duration of amortization periods.</p> <p>7 BY MR. CIANTRA:</p> <p>8 Q. So not unreasonable?</p> <p>9 A. I didn't say that.</p> <p>10 Q. You think it's unreasonable?</p> <p>11 A. I didn't answer the question in that</p> <p>12 regard in terms of defining reasonableness or</p> <p>13 unreasonableness. I said I'm not aware of an</p> <p>14 Actuarial Standard of Practice that provides a</p> <p>15 definition as to what is within or without bounds</p> <p>16 for amortization periods.</p> <p>17 Q. Okay. Would it be correct that -- that</p> <p>18 the selection of that 30-year amortization period</p> <p>19 for the unfunded liabilities is not inconsistent</p> <p>20 with Actuarial Standards of Practice?</p> <p>21 A. I really have no way to define what is</p> <p>22 and what is in -- what is within or without</p>
<p style="text-align: right;">Page 38</p> <p>1 tell you if you are not supposed to answer.</p> <p>2 THE WITNESS: Okay.</p> <p>3 In terms of following Actuarial</p> <p>4 Standards of Practice, to the extent that there is</p> <p>5 a mandated assumption or an assumption which we</p> <p>6 think is unreasonable, which I guess would</p> <p>7 basically derive from a mandated assumption, I</p> <p>8 would state that in my report.</p> <p>9 And to the extent that I write a report</p> <p>10 and don't state that implicitly, you could make the</p> <p>11 assumption that I believe that what I've done is</p> <p>12 within reasonable practice.</p> <p>13 BY MR. CIANTRA:</p> <p>14 Q. That would be a reasonable reading of</p> <p>15 that?</p> <p>16 A. Yes.</p> <p>17 Q. With respect to the 30-year</p> <p>18 amortization methodology that the Detroit General</p> <p>19 Retirement System uses, in your opinion, is that</p> <p>20 within reasonable actuarial standards?</p> <p>21 MR. MUTH: Can you read that back?</p> <p>22 - - -</p>	<p style="text-align: right;">Page 40</p> <p>1 Actuarial Standards of Practice for amortization</p> <p>2 periods.</p> <p>3 Q. Well, is -- in your experience, is a</p> <p>4 30-year amortization period unusual in a public</p> <p>5 sector plan?</p> <p>6 MR. MUTH: Object to the form.</p> <p>7 BY MR. CIANTRA:</p> <p>8 Q. Go ahead. You can answer.</p> <p>9 A. Thirty years is not uncommon; however,</p> <p>10 30 years is shorthand for a lot of different types</p> <p>11 of amortization methods.</p> <p>12 So the particular method, as I'll refer</p> <p>13 you to the top of Page 4 in this July 6th, 2012</p> <p>14 letter, the particular -- the particulars of this</p> <p>15 30-year amortization method lead to an increasing</p> <p>16 debt each year, and that was what we felt was</p> <p>17 important to point out, the functioning of this</p> <p>18 particular methodology.</p> <p>19 Q. Have you seen that methodology used in</p> <p>20 other public retirement systems?</p> <p>21 A. I've -- I will say I've seen 30-year</p> <p>22 periods; I've seen open amortization; I've seen</p>

<p style="text-align: right;">Page 41</p> <p>1 level-percent-of-pay amortization. 2 I can't say specifically that I 3 remember a system that had each of those three 4 components, each one of those three being as 5 important to me as the third [verbatim] year in 6 terms of understanding the workings of the 7 methodology. 8 Q. You said in your response "the third 9 year." 10 Did you mean the 30th -- the 30 year? 11 A. Thirty year, yes. I apologize for my 12 voice this morning. 13 Q. The -- why, in your understanding, 14 would a -- a retirement system want to use a -- a 15 smoothing technique to come up with the actuarial 16 value of its assets? 17 A. Well, generally, the desire, as I 18 understand it, is that market value of assets 19 arises in a very volatile fashion year over year. 20 A smooth value of assets is -- is, in concept, 21 designed to arise in a smoother fashion, a less 22 volatile fashion over time; and using that less</p>	<p style="text-align: right;">Page 43</p> <p>1 the plan, you -- you determine the market value of 2 the assets as of the termination date, correct? 3 A. That is one step in the process, yes. 4 Q. One step? 5 A. Yes. 6 Q. But that's the valuation process; you 7 wouldn't be looking to smooth the values going 8 forward because you're projecting the termination 9 of the plan, correct? 10 A. In a termination, you have the assets 11 that you have, which is the market value of assets. 12 Q. Right. Okay. 13 So the -- so why would you, in an 14 ongoing plan -- is there -- well, let me step back. 15 It would be consistent with Actuarial 16 Standards of Practice to use smoothing in an 17 ongoing plan, correct, so long as the -- as 18 the -- the assumptions for that smoothing were 19 otherwise reasonable? 20 A. Actuarial Standard of Practice 44 21 discusses asset smoothing methods for the purpose 22 of developing employer contribution rates.</p>
<p style="text-align: right;">Page 42</p> <p>1 volatile actuarial value of assets in the 2 development of an employer contribution rate leads 3 to a smoother pattern of employer contributions, 4 which budget officers tend to prefer in funding 5 pension plans. 6 Q. So for an -- an ongoing plan, does -- 7 the sponsor might well prefer to smooth the 8 actuarial values of the assets, rather than taking 9 a market snapshot at a given date? 10 MR. MILLER: Object to form. 11 THE WITNESS: So I answer that? 12 It seems like the same question that I 13 just answered. 14 So, yes, my understanding is you would 15 prefer a smooth actuarial value of assets to 16 develop a smoother employer contribution pattern. 17 BY MR. CIANTRA: 18 Q. Right. And in the -- I'm not a 19 benefits lawyer, so I'm going to risk this by 20 asking you this question. 21 In the world of private defined benefit 22 pension plans, if the sponsor is going to terminate</p>	<p style="text-align: right;">Page 44</p> <p>1 Q. And it allows for smoothing? 2 A. It allows for smoothing, yes. 3 Q. Anything unusual with respect to the 4 smoothing methodology that the Detroit General 5 Retirement System has adopted in your practice -- 6 in your -- in your experience? 7 A. I wouldn't say there's anything 8 unusual. 9 Q. You've seen the seven-year period used 10 before? 11 A. Five is the most common. I mean, seven 12 is not a standard number, but it's two more than 13 five. 14 Q. Is there -- does the General Retirement 15 System employ a corridor above -- above or below 16 which the actuarial value cannot vary from the 17 market value? 18 A. To my understanding, they do, yes. 19 Q. And what is that corridor? 20 A. I would have to look at the valuation 21 report to be certain, but I believe the corridor 22 was loosened after the market crash of 2008-2009</p>

<p style="text-align: right;">Page 173</p> <p>1 MR. MUTH: Object to form.</p> <p>2 THE WITNESS: Our initial engagement</p> <p>3 was, as I've said, read this report and explain it</p> <p>4 to us, help us understand what's going on. Our</p> <p>5 resulting document was our effort to highlight</p> <p>6 things that we thought the user should be aware of.</p> <p>7 BY MR. SHERWOOD:</p> <p>8 Q. Do you know why the City of Detroit was</p> <p>9 asking you to provide the -- them with this</p> <p>10 assistance in reviewing the Gabriel, Roeder, Smith</p> <p>11 reports?</p> <p>12 A. I don't know the specific cause, no.</p> <p>13 Q. Do you know generally?</p> <p>14 A. I could give you a typical example, but</p> <p>15 I can't guarantee it applies to this situation.</p> <p>16 Q. I'd like to know what -- how -- how you</p> <p>17 think it came to pass that Milliman got hired by</p> <p>18 the City of Detroit in the spring or summer of</p> <p>19 2012.</p> <p>20 A. That I can't speculate --</p> <p>21 MR. MILLER: Objection.</p> <p>22</p>	<p style="text-align: right;">Page 175</p> <p>1 Q. You came to learn what it was, though,</p> <p>2 correct?</p> <p>3 A. During the course of our assignment, in</p> <p>4 reviewing the valuation reports for the two</p> <p>5 systems, we came to some -- I'll say given that we</p> <p>6 started with no knowledge of the system, we came to</p> <p>7 some knowledge of the systems through that process.</p> <p>8 Q. And what -- what were the major</p> <p>9 problems that you learned about?</p> <p>10 A. In our letter, I'll point you to the</p> <p>11 comments that we made. That would be Exhibit 1.</p> <p>12 So given the very broad assignment of</p> <p>13 read the report and explain it to us, we started on</p> <p>14 Page 2, developed the table that started with</p> <p>15 valuation report numbers. And the first item that</p> <p>16 we mentioned as -- and used the word "problems."</p> <p>17 I'm not using the word "problems." We're pointing</p> <p>18 out -- we're pointing out issues that the City</p> <p>19 should be aware of to the extent that it was not</p> <p>20 obvious to them.</p> <p>21 But take DGRS, for example, the market</p> <p>22 value of assets was \$1 billion lower than the</p>
<p style="text-align: right;">Page 174</p> <p>1 BY MR. SHERWOOD:</p> <p>2 Q. You haven't been instructed not to</p> <p>3 answer, so you can answer.</p> <p>4 A. Well, in terms of how Milliman was --</p> <p>5 was -- Milliman was contacted by the City. So</p> <p>6 that's how we came to be hired, in response to that</p> <p>7 specific question.</p> <p>8 Their motivation for hiring us</p> <p>9 specifically in this case would be speculation on</p> <p>10 my part.</p> <p>11 Q. If you have an understanding of why the</p> <p>12 City came and hired Milliman when it did, I'd like</p> <p>13 you to give it to me.</p> <p>14 MR. MUTH: Objection: asked and</p> <p>15 answered.</p> <p>16 THE WITNESS: That I don't know.</p> <p>17 BY MR. SHERWOOD:</p> <p>18 Q. What did you understand the state of</p> <p>19 the affairs to be with respect to the City of</p> <p>20 Detroit's pension plan in the spring of 2012?</p> <p>21 A. I had no knowledge of the state of</p> <p>22 Detroit's pension plan in the spring of 2012.</p>	<p style="text-align: right;">Page 176</p> <p>1 smooth value of assets. And as we had discussion</p> <p>2 earlier this morning, only the market value of</p> <p>3 assets really exists and is available to pay</p> <p>4 benefit payments with. So we thought that was an</p> <p>5 important point to make.</p> <p>6 So to the extent that users had not</p> <p>7 understood that from the valuation report, we tried</p> <p>8 to make it clear.</p> <p>9 We offered commentary as well on what</p> <p>10 we viewed as optimism in the discount rate;</p> <p>11 potential optimism in the mortality assumption as</p> <p>12 well; and, again, very high-level comments at this</p> <p>13 point in this letter, as we have discussed earlier.</p> <p>14 And, finally, we noted that a</p> <p>15 relatively significant portion of the actual market</p> <p>16 value of assets in the trust were based upon</p> <p>17 borrowing that the City had done, and just pointed</p> <p>18 that out so that people didn't forget, when looking</p> <p>19 at the valuation report, that a portion of the</p> <p>20 funded status is due to debt that exists elsewhere</p> <p>21 in the City's general balance sheet.</p> <p>22 Q. So in terms of these issues, did the</p>